WINTER 2002

financial ★ FOOTNOTES

STATE OF ALASKA

A RETIREMENT PLANNING NEWSLETTER BROUGHT TO YOU BY BENEFITSCORP, A GREAT-WEST COMPANY

TIMELESS PORTFOLIO STRATEGIES

Enduring Market Volatility

The financial markets are famous for their ups and downs, but ultimately the downs are much harder to take.

In a field known as "Behavioral Finance," academic studies have been performed on the psychology of the investor. Professors Amos Tversky (the founding father of the field) and Daniel Kahneman of Princeton first proposed the "Prospect Theory" in 1979. Their studies revealed that people are much more distressed by losses than they are pleased by equivalent gains. In fact, a loss has about two and a half times the emotional impact of a gain of the same magnitude.[1]

Recently, many individuals have felt the pain of watching their own 457, 401 (k), 401 (a) and 403 (b) accounts suffer. However, a sound long-term investment plan assumes that there will be periods of market decline. If you feel uneasy in the midst of market turbulence, then it might be a good time to revisit your portfolio strategies.

How Much Risk Can You Stand?

Although different investments carry varying degrees of risk, the financial markets generally have provided the potential for higher returns in exchange for bearing greater risk. But investments with higher potential long-term returns can be volatile. For example, over the past 40 years, stocks outperformed bonds 80% of the time over rolling 10-year periods. However, within these 10-year periods there have been periods of dramatic short-term volatility.[2]

Your tolerance for risk demonstrates your ability to weather turbulent periods during which investment performance does not meet your expectations. It depends greatly on your time horizon and investment goals, as well as your own life experience and personality. The risk tolerance quiz on the back should help you assess your risk profile.

Dollar-Cost Averaging

By investing a fixed amount in an investment option at regular intervals, an investor could purchase more shares when the price is low and fewer when the price is high. The typical result is a lower average price per share.

Investing a set portion of each paycheck in an employer-sponsored retirement plan is a convenient way to take advantage of dollar-cost averaging. No one can predict for certain the highs and lows of the financial markets, but dollar-cost averaging may help you accumulate more shares over time.[3]

Asset Allocation & Diversification Strategy

A risk tolerance quiz (like the one on the back) is a tool that can help you choose a target allocation (your asset mix) based on how asset classes such as stocks, bonds, and cash equivalents have performed over time. You may discover that you fit the profile of an aggressive investor, a moderate investor, or possibly a more conservative one.

Is your money divided among the various types of investments so that your potential for returns is appropriate based on your time horizon and risk profile? If so, you may be positioned to more comfortably ride out bumps in the market.

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Investor Profile Quiz

1 I am a knowledgeable investor who understands the trade-off between risk and return and I am willing to accept a greater degree of risk for potentially higher returns.

Strongly Disagree 1 2 3 4 5 **Strongly Agree**

2 I am willing to invest on a long-term basis.

Strongly Disagree 1 2 3 4 5 **Strongly Agree**

3 If one of my investments dropped 20% in value over six months due to a stock market fluctuation, I would hold on to that investment, expecting it to recover its value.

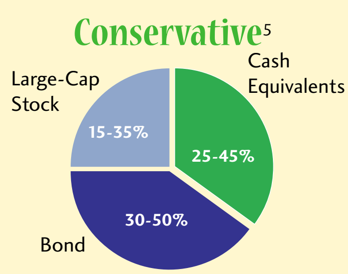
Strongly Disagree 1 2 3 4 5 **Strongly Agree**

4 I have savings vehicles other than my Plan that make me feel secure about my financial future

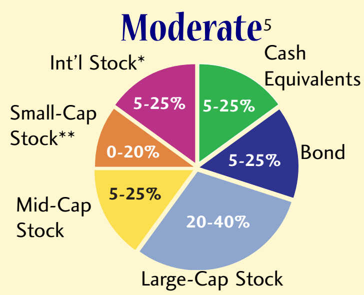
Strongly Disagree 1 2 3 4 5 **Strongly Agree**

Add up the numbers for each of your answers for your total score. Write your score in the box to the right. Then, match your score to one of the three risk tolerances below.

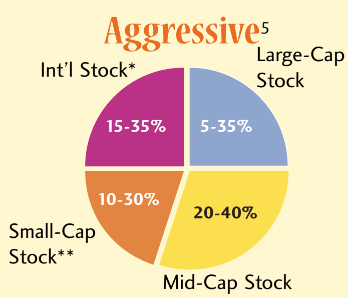
4-8 points: Conservative Investor Profile. You're an investor who enjoys safety and stability for your money. But remember: not having enough money when you retire is a big risk too! Keep in mind how much time you have until retirement, and the effect that inflation may have on your investments.



9-14 points: Moderate Investor Profile. You're an investor who prefers some balance between lower-risk investments and higher-risk investments, and you are comfortable with some market volatility. Review your situation at least once a year to make sure you're still comfortable with how you're allocating your money to various investment options.



15 - 20 points: Aggressive Investor Profile. You're an investor who's comfortable with taking on the higher risk associated with the chance for higher returns. You're comfortable knowing that your investments may lose significant value at times, as you pursue higher returns over the long-term. Some Aggressive investors may prefer to keep a portion of their investments in Cash Equivalent-type investment options. Review your situation at least once a year and keep in mind how much time you have until retirement.



*Foreign investments involve special risks, including currency fluctuations and political developments.
**Equity securities of companies with relatively small market capitalization may be more volatile than securities of larger, more established companies.

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For example, you may be a conservative investor but have more than 15 years until retirement. You may want to use a moderate asset allocation for now, then slowly adjust to a more conservative allocation the closer you get to your retirement.

As the market value of various investments changes, the percentage of your assets held in each class could also change. You might choose to rebalance (sell some holdings and buy others) periodically in order to remain near your target allocation.[4]

Are you worried about investing during turbulent times? Don't abandon a thoughtful investing plan that may serve you well over the long term.

Asset allocation, **diversification**, and **dollar-cost averaging** techniques could possibly help you manage the impact of price fluctuations on your investment portfolio.

1) Hersh Shefrin, Beyond Greed and Fear: Understanding Behavioral Finance and the Psychology of Investing, Harvard Business School Press, 2000
2) Wiesenberger, 2001. Performance described considers the 31 ten-year periods from 12/31/1960 to 12/31/2000. Stocks are represented by the S&P 500 Composite Index, which is generally considered representative of the U.S. stock market. Bonds are represented by the Salomon Brothers Corporate Bond Composite Index, which is generally considered representative of the U.S. bond market. The performance of an index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results.
3) Dollar-cost averaging does not ensure a profit or prevent a loss. Such plans involve continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases through periods of low price levels.
4) Note that there are potential tax implications when rebalancing your portfolio.
5) For illustrative purposes only. Not intended to predict or project future investment results, or intended as financial planning or investment advice.

Form #G3759 (1/15/02)

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Please Note: This newsletter does not constitute investment or financial planning advice.

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